Testimony
Dave Weick
VP and Chief Information Officer
McDonald's Corporation

Senate Special Committee on the Year 2000 Technology Problem
Washington, D.C.
October 20, 1999

McDonald's Year 2000 Readiness

Introduction and Background

Mr. Chairman and members of the Committee . . . thank you for the opportunity to provide an overview of McDonald's Year 2000 Program. I am Dave Weick, Vice President of Information Services and CIO for McDonald's Corporation, based at our home office in Oak Brook, Illinois.

Allow me to provide a brief overview of our company. McDonald's was founded in 1955 by Ray Kroc, who pioneered the creation of the quick service restaurant industry. Today, we are the world's largest quick service restaurant organization, operating more than 25,000 restaurants in 117 countries, with annual sales of more than $36 billion.

As one of the world's most recognized brands, McDonald's serves more than 40 million people each day, 22 million of them in the U.S. We open five new restaurants every day throughout the world. McDonald's represents the world's largest private enterprise employer, with more than 1.5 million people working in our restaurants around the world, about half of them in the U.S.

At the same time, we are the largest "small business" in the world, since approximately 65% of our restaurants are owned and operated by independent entrepreneurs, small business men and women who live in the communities in which they do business. In the U.S., franchisees own and operate 85% of our 12,500 restaurants.

Therefore, although we are a multinational organization, our focus is multi-local. We strive to build partnerships with local businesses and the communities in which we operate. To illustrate, in the first six months of 1999, McDonald's purchased more than $82 million in food and paper products from Utah suppliers to support restaurant sales. Among the restaurants supported by this supply are 79 in the state of Utah, which are owned and operated by 24 independent business men and women. During the same period, McDonald's purchased in excess of $215 million in food and paper products from French suppliers to support 727 restaurants in France.

It is our intention that our restaurants worldwide move seamlessly into the 21st century.

Global Program Overview

McDonald's has recognized the importance, complexity, and potential business impact of the Year 2000 issue since the mid-1990s. In 1996, McDonald's initiated a formal program to address the Y2K issue with full support of senior management. At that time, McDonald's engaged a consulting firm to provide expertise as a project partner and assembled a team of Information Services employees and consultants that was dedicated to meeting the technical Y2K challenge.

The goal of this program is to minimize the risk of potential Y2K business disruptions to ensure our continued ability to serve our customers without interruption during the transition to the new century. Our overall approach is underscored by our fiduciary responsibility to effectively balance risk with cost, which has led to the identification of creative, cost-effective solutions throughout our effort.

The Y2K challenge is an issue that, although rooted in technology, has significant potential business impact. As such, McDonald's has approached our Y2K initiative as a partnership between Information Services and business clients across the enterprise. Hundreds of employees and consultants representing our lines of business worldwide have been involved in various aspects of the Y2K program.

Consistent with our decentralized operating model, we have addressed our Y2K initiative in a decentralized manner, supported by a centralized management structure. McDonald's Year 2000 Program Management Office was established at the inception of the project to facilitate global compliance by developing program guidelines – including disciplined project management and renovation processes – providing expertise and assistance, and monitoring overall progress.

To validate our approach and objectively measure progress, McDonald's Y2K program has been subject to ongoing review by Internal Audit. Further, McDonald's has engaged several external auditors to perform independent quality, progress, and risk assessments. The Audit Committee of McDonald's Board of Directors is briefed quarterly on our Y2K compliance status, and the full board receives a monthly progress report.

McDonald's has committed $80 million to the Y2K compliance program. This includes the cost of renovating and replacing mission critical systems, as well as the cost of centralized business partner risk assessment/validation and contingency planning efforts. As of September 30, 1999, $78 million has been spent.

The scope of McDonald's Y2K program includes the following initiatives, which I will describe in more detail:

- Project Management
- Communications
- Restaurant Systems and Equipment
- Business Partner Risk Assessment and Validation
- McDonald's Internally Developed Business Systems
- Building Facilities
- Vendor Supplied Computer Infrastructure Components and Business Applications
- PC/End User Applications
- Contingency Planning

Project Management

McDonald's Y2K project management process has been the cornerstone of our Y2K effort. It includes executive sponsorship; structured and comprehensive project planning; rigorous employment of project management disciplines; robust quality, cost, and timeliness success criteria upon which regular project updates are based; and a centralized global Program Management Office (PMO). The PMO developed and maintains the Y2K Renovation Master Plan, and monitors global Y2K readiness efforts against established milestones.

Within each of our 157 field offices worldwide, Y2K Coordinators perform as extensions of the PMO – facilitating and monitoring local efforts, and regularly reporting progress to the central PMO.

Communications

A comprehensive communications plan was established in 1996. Its purpose was to raise Y2K awareness throughout the enterprise, to provide an ongoing process for dissemination of Y2K information to employees and restaurants worldwide, and to keep McDonald's customers, shareholders, and business partners updated on the status of Y2K readiness. McDonald's Y2K communications plan, coordinated with our Legal and Communications Departments, includes SEC-mandated Y2K disclosures, responses to business partner requests for McDonald's Y2K status, restaurant and field office readiness tools, project updates, and senior management communications.

Internal and external information dissemination is supported by a number of communication vehicles, including a Y2K page on McDonald's public Web site, a Y2K site on McDonald's corporate intranet, and a Y2K Helpline. A global Y2K newsletter is published regularly, and Y2K readiness toolkits have been sent to our restaurants worldwide.

Restaurant Systems and Equipment

While McDonald's Corporation can control the readiness of company-owned restaurants through our field offices, franchisees remain responsible for taking the appropriate actions to ensure Y2K readiness of their restaurants. McDonald's Corporation has launched a comprehensive program to assist its franchisees in this regard. This program encompasses the renovation of company-developed restaurant systems, compliance validation of corporate-approved vendor restaurant systems and equipment, and the development of numerous communications and tools designed to identify and facilitate required restaurant compliance actions.

McDonald's Corporation has developed three point of sale and administrative systems used in a number of restaurants in the U.S. and in international markets. Y2K-compliant versions of these systems have been completed and are currently being implemented in restaurants worldwide. The majority of restaurants using these systems have been upgraded to Y2K compliant versions, with overall implementation expected to be completed in November 1999.

In addition to these systems, the majority of McDonald's restaurants worldwide use point of sale systems provided by several major vendors. These are considered corporate-approved systems, and have been validated by McDonald's as primarily compliant, with several versions requiring upgrades or manual date-set procedures. This information has been communicated to restaurants and field offices globally for appropriate action.

All approved restaurant food preparation and storage equipment and building systems have been validated as compliant by McDonald's.

Franchisees may use certain restaurant systems that have not been approved for global use by the corporation, and a relatively small percentage of franchisee restaurants use non-approved technology. Compliance validation and tracking of these systems by the corporation has not been viable due to the diversity of products in use. Franchisees have been instructed regarding their responsibility for identifying required compliance actions for non-approved restaurant technology.

Business Partner Risk Assessment and Validation

The goal of our business partner program is to identify and manage Y2K risks with our suppliers to ensure the continued supply of products and services McDonald's depends upon to serve our customers. A number of our business partners and their trade associations, such as Procter & Gamble, Kraft, and Grocery Manufacturers Association have testified before the Committee and you are aware of their Y2K plans.

Over the past two years, we have executed an extensive global program to build our confidence level in the ability of our business partners to ensure the ongoing viability of their businesses, and to provide products that are Y2K compliant. This process required participation from all functional areas and field offices within the corporation.

The following process was used to assess our partners' readiness:

- Develop an inventory of business partners
- Determine the business criticality of each business partner to McDonald's
- Assess key business partner Y2K readiness
- Formulate appropriate action plans based upon risk assessment

A risk assessment model was developed as a key component of our business partner program to promote consistency in execution globally. The model was the foundation of our Y2K readiness survey of all key business partners, with responses used to determine relative risk to McDonald's.

Face-to-face meetings were held with business partners falling into medium or high risk categories to audit their status and determine follow-up actions. These business partners were subsequently monitored closely until risk levels were reduced. In addition, all partners providing critical technology products to McDonald's restaurants were required to demonstrate and/or certify their product compliance.

This process was used with more than 1,500 centrally managed business partners, and hundreds of additional suppliers at the local level worldwide.

Based upon our work, we do not expect any significant disruptions to our supply chain.

Internally Developed Business Systems

McDonald's conducted its inventory and assessment phases in 1996, with 228 internally developed applications identified and categorized, based on use and risk. This information was used to determine the appropriate action for each application, with a retirement/replacement before renovation philosophy governing these decisions. The resulting application portfolio requiring replacement consisted of 46 applications with about 2 million lines of code. The portfolio requiring renovation consisted of 140 applications, with about 7 million lines of code. Another 42 applications were identified for retirement.

McDonald's identified the technique known as windowing as a primary renovation approach in early 1997. A renovation pilot addressing applications across various software and hardware platforms was conducted in order to test and refine estimates and processes prior to the full renovation effort. We began the full renovation effort in April 1997.

The identification and testing of all electronic data exchanges with business partners was included in the renovation effort. The renovation of an internally developed financial application used in a number of international markets was also included as a separate but parallel effort. This renovation has been completed, and the system implementation in these markets is expected to be complete in November.

McDonald's has substantially completed its renovation effort, with all significant systems renovated and in production, and two applications in final Y2K testing that will be complete this month.

Throughout the effort, Software Quality Assurance practices were rigorously employed and renovation tool enhancements were made. To validate renovation quality, a significant sample of McDonald's renovated code was reviewed by an independent auditor for potential remaining date issues in April 1999. Results were far superior to the industry average.

Building Facilities

Based upon our review and assessment of the technology used in the daily operation of our facilities, all home office facilities systems have been certified Y2K compliant. These include security, elevator, lighting, heating, ventilation and air conditioning systems.

Field offices worldwide are responsible for the assessment and Y2K certification of their building facilities, and this effort is nearly completed as well.

Vendor Supplied Computer Infrastructure Components and Business Applications

This initiative encompasses all information technology products supplied by vendors, including network devices, operating systems, software utilities, and business application packages. McDonald's has more than 1,300 infrastructure and business application products currently installed.

Based on McDonald's product testing and vendor certification, 99% of all date sensitive infrastructure products and all critical business applications currently installed have been certified Y2K compliant. Completion of infrastructure certification is expected by the end of this month.

PC/End User Applications

In conjunction with an initiative to roll out an enterprise-wide standard PC configuration that was completed in June 1999, essentially all PC hardware and standard software have been certified Y2K compliant. A small number of PCs requiring a manual workaround procedure have been identified.

End users are responsible for taking the necessary actions to ensure compliance of any personally-developed applications or purchased software. An end user compliance initiative was launched early in 1997. Information Services resources were assigned to all client departments to assist in performing inventories and assessments of end user application portfolios, which led to compliance action determinations for all end user applications.

The Y2K project team facilitated this process by maintaining a database containing Y2K compliance dispositions of numerous vendor software products which is available to end users on our corporate intranet. In addition, the project team has recommended assessment tools and provided the compliance status of popular non-standard PC software products through various communications over the past several years, including Y2K newsletters.

Contingency Planning

We know that the nature and complexity of the Y2K issue creates a potential for business disruptions beyond our control, despite our best internal preparation efforts. To minimize the risk and impact of these potential disruptions, we have developed business contingency plans to protect our critical processes.

Our contingency plans address business issues, as well as technology processes, and include both preemptive and reactive components. Key contingency strategies include:

- Increased inventory for key food and paper products and restaurant equipment
- Enhanced restaurant rollover support within restaurant service organizations worldwide
- Back-up lines of credit
- Manual and workaround procedures for critical business processes
- Planned system backups before and after rollover across all infrastructure
- A technology freeze to stabilize the technical environment approaching the rollover
- A global Y2K transition management infrastructure and process

Our contingency plans for supplying our restaurants augment an existing robust business continuity infrastructure within our supply chain which has provided an assured product supply for our restaurants throughout our entire history, despite any number of various unforeseen disruptions.

As a restaurant organization, food and water safety is of paramount importance to us. As such, we adhere to the strictest standards to guarantee the consistency and quality of our food and water. In addition, we have a redundancy of safety systems already in place that accrue to our benefit, particularly in view of the potential impacts of Y2K, such as power failures leading to loss of refrigeration or water filtration issues that might compromise food and water quality.

An example of this is the water filtration system used in our restaurants, which filters out many types of bacteria and all parasites, providing added assurance of water safety. This would enable us to overcome many potential water quality issues related to Y2K and allow continued operations. We are committed to ensuring that the beverages sold in all of our restaurants worldwide are safe. Further, extensive plans already exist within our supply chain and at our restaurants to quickly address and contain any food safety issues that might arise. We do not compromise on food safety.

Our transition management plan includes establishment of a Y2K command center, operating 24 hours a day through the century transition period, at our corporate headquarters and in every field office. Command center teams will include technical and business experts available to quickly diagnose and resolve any problems that might occur at year-end. Our key business partners will also be an integral part of our transition management process and act as extended command center team members.

Summary

We are confident in our Y2K readiness as we enter the final preparation phase because of the extensive measures we've taken to address our internal systems and processes. Our confidence is validated by the results of independent project assessments conducted throughout the life of our program, and by our current readiness status.

However, we do anticipate the potential of limited Y2K issues arising in areas outside our direct control, such as infrastructure services – particularly outside the U.S. – and business partner activities. Possible consequences include delays in the delivery of products to restaurants and temporary isolated restaurant closures. Nonetheless, we believe our internal preparations, including the contingency planning and transition management programs outlined previously, should significantly reduce the adverse impact of any such disruptions.

As a global corporation, McDonald's has considerable experience in dealing with unplanned business interruptions that often occur in many parts of the world. Over the years, we have continued to serve our customers through numerous hardships, including natural disasters, utility failures, and social unrest. In fact, McDonald's has consistently taken a leadership role in providing relief to the people in areas struck by adversity, and we intend to continue this tradition of serving our customers and our communities through the transition into the next century.

That concludes my testimony. I would be happy to answer any questions you might have.